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C O N F I D E N T I A L SECTION 01 OF 02 ASUNCION 000708

SIPDIS

STATE PASS TO USAID LAC/AA  
STATE PASS TO USTR FOR SCRININ AND LYANG  
STATE FOR WHA/BSC  
TREASURY FOR OSIA MAUREEN WAFER  
TREASURY FOR OTA WARFIELD, VAN KOCH, MILLAR  
COMMERCE FOR ITA SARAH COOK  
NSC FOR KIMBERLY BREIER  
SOUTHCOM FOR POLAD DAN JOHNSON

E.O. 12958: DECL: 02/17/2015

TAGS: [PGOV](#) [PREL](#) [PINR](#) [PA](#)

SUBJECT: PARAGUAY: REACTIONS TO BRAZILIAN CRACKDOWN ON THE  
FRIENDSHIP BRIDGE

REF: A. 2004 ASUNCION 01473

[1](#)B. ASUNCION 00484

Classified By: Ambassador John F. Keane for reasons: 1.4(b) and (d).

[1](#)1. SUMMARY: Recently, PolOff and Department of Treasury,s Resident Enforcement Advisor (REA) traveled to Ciudad del Este (CDE) to observe trade and traffic across the Friendship Bridge, linking Paraguay and Brazil, in the wake of stepped up enforcement measures by Brazilian authorities to counter the smuggling of contraband and pirated goods and to meet with GOP and GOB officials. Several Paraguayans complained that the Brazilians were unfairly punishing Paraguay and did not view the Brazilian tactics as effective. Also, Brazilian officials noted their enforcement efforts will build over the next several months, but may be complemented by GOB projects to provide economic assistance. END SUMMARY.

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The View from Ciudad del Este  
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[1](#)2. (C) Prosecutor Augusto Salas from the financial crimes unit in CDE cited Brazil as the source of the region's problems with the smuggling of contraband and pirated goods. He blamed Brazil,s recent enforcement efforts on the bridge for the closing of businesses, a loss of jobs, and an increase in crime within the city. American Chamber of Commerce (AmCham) Representative Jeff Hessler told PolOff and REA in meetings that stepped-up Brazilian controls on trade across the Friendship Bridge have impacted businesses in Ciudad del Este, but to a lesser degree than what is highlighted in local press. He noted that in particular Taiwanese businesses seem to have been more affected, however, other Embassy contacts state that businesses owned by Arabs, Brazilians, and Paraguayans have been equally affected by the economic conditions in the city. Hessler also described the mayor of Ciudad del Este as a close personal friend of President Duarte and one who is more concerned about cleaning up the city and making it "pretty" for tourists than actually combating contraband and piracy. (Comment: Increasing tourism and other legitimate business is vital to sustaining support for crack-downs on illegal activity. These efforts are complementary, rather than competing efforts. End Comment.)

[1](#)4. (C) Ciudad del Este Mayor Ernesto Zacarias Irun, accompanied by his Secretary of Tourism Mauro Cespedes, told PolOff and REA that he is hoping to create a city that is pleasant looking and welcoming to tourists. He defined tourists as those who come to CDE to shop for electronics, perfumes, compact discs, etc. Zacarias also maintained that CDE's reputation for contraband does not track with reality, alleging that only four percent of goods sold in CDE are contraband. Both PolOff and REA rebuffed this statistic and questioned the source. Zacarias also boasted that early in his mandate he kicked out all of the illegal cigarette operations in the city and stated that the illegal cigarettes traded in the area were brought from other parts of the country, such as Asuncion and Caagauzu, to be sold in CDE. (Note: Mayor Zacarias is a former congressman and a member of the Colorado Party. In his mid-30s, he is energetic and well-spoken. End Note.)

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The Friendship Bridge from the Brazilian Perspective  
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[1](#)5. (U) Poloff accompanied by REA met with the Brazilian Consul General to Ciudad del Este Antonio Fernando Cruz de Mello, Juan Carlos Araujo of the Brazilian Federal Police, and Roberto Miranda of the Brazilian intelligence community to learn about Brazil,s enforcement efforts in the tri-border area, specifically targeting smuggling of

contraband and pirated goods flowing across the Friendship Bridge. The Brazilians told us their increase in customs' inspections of goods transferred over the bridge from Paraguay into Brazil is a continuation of Operation Cataratas. The GOB also maintained their efforts will be sustained and may increase gradually over the course of the next several months to avoid extensive GOP outcry. The Brazilian Government initiated Operation Cataratas in November 2004 as an effort to crackdown on smuggling flowing from CDE into Foz do Iguacu, Brazil. Initially, the operation caused large-scale demonstrations and closure of the Friendship Bridge for four days (ref A). Since then, the issue has dominated the local press and has been a source of strain between Asuncion and Brasilia. On April 16, the two countries signed an agreement raising the quota for duty-free personal purchases from US\$150 to US\$300 to quell the border dispute (ref B).

16. (C) The Brazilian officials related that corruption was their biggest challenge in dealings with the GOP. Miranda told PolOff and REA that a Paraguayan navy officer had offered a bribe to Brazilian officials to let up on the controls on the Friendship Bridge. The Consul General confided that he did not trust anyone within the GOP, including police, prosecutors, and Margarita Diaz de Vivar, the Director of Paraguayan Customs. (Note: EmbOffs have found Diaz de Vivar honest and responsive to our concerns. End Note).

17. (C) Cruz de Mello mentioned that Brazil is considering complementing its enforcement actions with an economic development plan, to include assisting the Paraguayans in building a soy production plant for example. (Note: This announcement parallels what Brazilian Embassy officers have told PolOff in previous meetings in Asuncion. End Note).

18. (C) Comment: It is becoming clear that Brazil has no plans to decrease enforcement efforts in the region, as stated by these Brazilian officials and echoed by their counterparts in Asuncion. Rather, Brazil is looking to reshape its policy towards Paraguay by adding an economic development component. Historically, concerned about the economic and political repercussions, Paraguay has been reluctant to combat contraband and piracy in the tri-border area. Instead, many Paraguayan officials tend to downplay the extent of the smuggling problem and cast blame at others--namely Brazil--for implementing unfair policies. However, there are signs of a GOP shift in attitudes and approach. The GOP is slowly implementing systems to augment Brazil's stepped up enforcement. Local press reported on May 2 that the GOP implemented an integrated customs control system, making international transactions between Brazil and Paraguay more transparent. It is also noteworthy that over the course of the Duarte administration the government has stepped-up efforts, however uneven and intermittent, to crackdown on businesses producing contraband and pirated goods. These efforts run up against strong economic and political interests. Paraguay's ability to recast CDE's image as a haven for smuggling will ultimately hinge on its determination to end the legacy of impunity enjoyed by those interests.

19. (C) Comment continued: The GOP has its own complaints about Brazil's willingness to cooperate on IPR protection. In July 2004, President Duarte sent a letter to President Lula suggesting that the two countries discuss increased information sharing with respect to IPR enforcement. The letter was never answered. In March 2005, at bilateral meetings in CDE, IPR was placed on the agenda at the insistence of the GOP, and Brazil responded by only sending one Brazilian embassy officer to attend that session. In early May, Brazil presented the GOP with a draft memorandum of understanding on IPR enforcement cooperation, which the two countries are expected to sign in June. It will take time to build trust between the two sides, but the agreement should be a step in the right direction.

KEANE